

California \$400M GOs Rated AA- by Fitch IBCA

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FITCH IBCA-NY-September 10, 1999: California's \$400 million general obligation bonds, for bids on Sept. 14, are rated 'AA-' by Fitch IBCA. In addition, the 'AA-' rating assigned to \$19.7 billion outstanding general obligations is affirmed. The new bonds are due Sept. 1, 2000-29 and will be callable beginning Sept. 1, 2009, at 101%.

The rating takes into account the fundamental strengths of California, buttressed by the extent of economic recovery and the return of fiscal stability. Rather than slowing down as expected, the state's economic expansion has regained strength. Both employment and personal income are showing good growth, with increases of 3.5% and 6.1%, respectively, in 1998. Similar gains are expected in 1999, with slowing in 2000. State personal income growth was faster than in the nation in both 1997 and 1998, reversing the trend shown in 1991-96 and on a per capita basis, the state's gains have matched or exceeded the U.S. for three consecutive years.

The economic resurgence was reflected in the May revisions, which form the basis for the budget for 1999-2000. Revenues were upwardly revised by about 2.9% for 1998-99 and 4.5%, this year, mostly due to expected performance of the personal income tax. The new estimates provided about \$4.3 billion additional revenue. The general fund at June 30, 1999, had a balance of \$2.4 billion, including \$1.9 billion in the reserve. Revenues for 1999 are expected to increase more than 8%, with the personal income tax yield rising 7.9%. Expenditures are up by a like amount, creating a draw of \$742 million from the opening balance. At year end, a balance of \$1.7 billion is projected, including \$881 million, or 1.4% of revenues in reserves, and an additional \$300 million set aside for employee compensation and litigation. Some \$1.7 billion of expenditures are classified as one-time, including \$425 million for the state infrastructure bank so that the operating deficit is not automatically ongoing. California's stronger financial position is also reflected in the reduction of operating borrowing, down from \$1.7 billion to \$1.0 billion.

The state's debt position continues to be favorable, with net tax-supported debt of about \$23.7 billion, or \$749 per capita and 2.6% of personal income, both very moderate ratios. California will have some \$12.8 billion general obligation bonds authorized but unissued after this sale, mostly representing \$9.2 billion school bonds approved by the voters in 1998 of which \$288 million are outstanding and \$400 million are now offered.

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